



MANAGER'S MESSAGE

April 12, 2017

Mayor Tuck, City Council Members, and Citizens,

I am pleased to transmit the Fiscal Year 2018 Manager's Recommended Budget, totaling \$467,844,000, an 1.0% increase from the FY 2017 budget. Of this amount, the City's operating portion is \$186,324,480, or 39.8%; the school's operating portion is \$203,660,107, or 43.5%; and other items (debt/capital for city and schools, regional entities, etc.) total \$77,859,413, or 16.7%.

This is the eighth budget I have prepared since becoming City Manager. This budget, like the previous ones, is austere. Real estate property values showed an increase for the third straight year after several years of decline. However, while clearly showing a positive trend, annual increases in the 1% range are not what we need to comfortably budget for the future. Since employee compensation and benefits make up nearly 50% of our budget, and more than 80% of the school budget, we need at least 3% growth to give the type of salary increases we would like to give our well-deserving employees without having to cut internally to do so. I am pleased that, despite this tepid growth, we were able to make major investments in our top priorities without an increase in the real estate tax.

Our top budget priorities were to continue to provide our hard-working employees competitive compensation increases and to invest in public safety to combat the increase in crime that has been experienced in Hampton, along with many communities across the country. We have also continued our commitment to education with additional investments above and beyond the local funding formula increases with a specific emphasis on the Hampton City Schools' Career Academy initiative.

To shift funding to these priorities, we continued to review internal savings opportunities. Internal efficiency is a hallmark of the Hampton organization, and I am pleased we were able to generate some savings to enhance these investments. We also benefited from timing. Several multi-year commitments will end this year, thus freeing up money to apply to these critical priorities. While the budget includes departmental decreases of over \$1 million, there are no layoffs of full-time staff due to budgetary reductions.

Overall, I believe this budget represents the best work our staff could collectively deliver for our community, and I am proud to highlight each of these areas in more detail.

Community Budget Input

One of the accomplishments that I am most proud of since becoming City Manager is that we have been able to get citizen budget input *before* finalizing the Manager's Recommended Budget. I firmly believe that we get a better budget when we know what residents want and expect. Over the past seven years, the public has been asked many questions, and we continued to use their guidance



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as the budget has been developed. These sessions have been invaluable, particularly as hard choices had to be made.

This year was no different. We heard from more than 1,000 citizens about the RV Tax, EMS Fee policy change and Solid Waste Fee increase, as well as increased investment in our Police department. The vast majority of the public supported these changes. We also changed the way we compiled the Capital Improvement Plan this year and were able to get feedback from our residents on what Strategic Priority Projects were most important to them. This year, we added philosophical questions about how we should approach future budgets if we are challenged by slow revenue growth and/or reduced federal contributions. While we were not faced with some of the hard choices we have had in recent years, we felt it was important to get resident feedback on these issues in case that changes. I believe you will find this budget aligns with the community input provided as well as the Council's adopted strategic priorities.

Educated & Engaged Citizens

Throughout the challenging economic times, the City has maintained our commitment to our schools, and we continue to do so in the FY18 budget. Our local school funding formula calls for the City and School System to share residential tax base growth – or decline. Our residential property tax base is still continuing to recover from the national housing crisis; however, it rose enough to boost our contribution to our schools by \$235,881. The City is providing another \$64,119 in recurring operating funds above the local funding formula to support our schools. In addition, the City will also provide \$265,000 in one-time funding to support one-time costs associated with implementing the new school Career Academies. I am truly excited about the Career Academy initiative as it will align the way our schools teach with the passions of the students and the needs of our business community. I believe this approach will enhance student achievement and meet the most pressing needs of local businesses, resulting in a highly skilled and ready workforce to fuel growth. I do not believe it is an overstatement to say this effort will be truly transformational for our schools and community.

Because Hampton City Schools has requested that the City transfer \$1 million of the previously allocated \$2 million in the capital budget for the one-to-one technology program to their operating budget, their general fund contribution will increase by a total of \$1,565,000 (\$565K detailed above plus the \$1 million). Previously the \$2 million was fully needed to purchase the computing devices for the program, but now that all middle and high school students have devices and HCS has moved to less expensive devices, they do not need the full \$2 million for capital purchases. Rather, they need \$1 million to support training, professional development and technology specialists who support the program.

In FY18, the City's operating budget contribution is \$73,036,416 million, or 96% more than the required local contribution as determined by the state funding formula. That means the City is contributing nearly twice what the state requires. Additionally, this budget maintains our capital



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commitments to our school division, with nearly \$5.3 million set aside for school maintenance and upgrades as well as \$1 million for the one-to-one technology initiative.

While we have worked hard to meet the needs of our schools, state budget challenges continue to be an issue. During the recession, the state cut about \$29 million from our school system. Last year, the General Assembly-approved budget increased support to the Hampton City Schools by nearly \$5 million. Unfortunately, when the state experienced additional budget challenges in FY17, they pulled back on that funding, forcing the schools to enter the Fiscal Year 2018 budget development process with a \$2 million deficit due to that state cut. Ultimately, the General Assembly approved increased funding for our schools above the initial FY17 level, which helped their budget situation a great deal. However, the state still has a lot of ground to make up to get our school funding back to pre-recession funding levels.

Our schools consistently perform better than other urban school districts across all measures. Our schools have continued to make exciting advancements by focusing on career-based academics and becoming the first urban district in our area to commit to providing tablet devices to all middle- and high-school students. These investments are paying dividends. Last year, the Ford Next Generation Learning Institute selected Hampton City Schools as one of its Career Academy partnerships; and the school system was selected as one of the most technologically advanced school system in the nation.

Strong schools are not only essential for the students who attend them, but they also contribute to the City's economic growth as businesses and families base their investment decisions, at least in part, on school quality. As already noted, we believe that the Career Academy initiative will position our schools and the City for an even brighter future.

These advancements would not be possible without our excellent teachers who prepare our youth for the future. I am pleased that – between the state and local increased revenue – the schools will be able to provide a 2% pay increase for our teachers and all support staff. The School System will also be able to make market adjustments to the teacher pay scale.

Safe & Clean Community

Over the last year, localities around the region and country have experienced an uptick in crime, especially in youth violence and robberies. While our Police cannot be expected to solve this challenge on their own, it is critical that we respond to these challenges. Last year we focused on equipping our officers with the resources they need to do their part exceedingly well. In addition to the investments we made in the FY2017 budget adopted by Council, we also made mid-year investments in technology, including equipping each officer with a smart phone so they can access cutting-edge police technology and increase efficiency, joining the National Integrated Ballistics Information Network in partnership with Newport News, and implementing enhancements to the Real-Time Crime Center we are developing. New police vehicles will also be equipped with bullet-proof doors through the equipment replacement fund.



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In addition to the investments in police equipment, we have also begun making investments in expanding our police presence on the street. In FY17, the City received a COPS grant from the federal government that partially funded the costs of five new officers. In addition to picking up the City's full share of these new officers in FY18, the City is funding the addition of 7 new officers – for a total of 12 new officers that should be added to the streets this fiscal year. These new officers will enable us to continue to move forward with implementation of the proven Community Policing model for public safety while ensuring that we keep a strong, consistent presence on the streets.

To continue to combat youth violence with intervention and prevention programs, the City is also picking up the full cost of the Youth Violence Prevention Initiatives. These initiatives were originally funded with the Alcohol Tobacco and Firearms funds on a pilot program basis. Due to the success of these programs, we have been gradually transitioning them to be fully supported by the General Fund. Additionally, this budget adds money for five more slots to expand the youth employment program and an additional \$10,000 in grant funds for grassroots organizations that support our youth violence prevention efforts.

Additional funding has been added to upgrade 911 dispatcher pay so we can attract and retain employees in these critical jobs. Region-wide shortages have caused challenges for all localities. The improved pay should stabilize our workforce and make it easier to compete for the best applicants. Our new Public Safety Career Academy at Bethel High School will provide a future pipeline of applicants, benefiting both the City and the student with employment immediately upon graduation. In the meantime, these pay changes are needed.

To fund these FY18 public safety enhancements, this budget shifts \$500,000 from the City Council Strategic Priority funds in the capital budget to the operating budget. These funds come from a dedicated portion of the tax rate reserved for strategic investments and can be shifted for ongoing expenses such as these, which clearly are in alignment with both Council and community strategic priorities. We are recommending this action so that the necessary investments can be made in public safety to combat the rising crime rate that is impacting cities across the nation, and to ensure our officers have the tools they need to be successful in today's environment.

The budget also includes raises and compression adjustments authorized and funded by the state for our Sheriff's Department as well as increased funding for the Hampton Roads Regional Jail Authority and covers the cost of an additional attorney added to the Commonwealth Attorney's Office added mid-year FY17 to address the workload increase associated with police body cameras.

We have also added \$100,000 to enhance our public safety street lighting program. Based on resident feedback, we started funding additional public safety orientated street lights in FY17 at \$100,000, so the additional \$100,000 expands the program to \$200,000 per year.

We have also funded a series of needs in the capital budget, including: the replacement of LifePak defibrillators and cardiac monitors used by the Fire and Rescue Division, expanding the parking lot at Fire Station 11 to accommodate the relocated Emergency Operations Center (EOC); repairs and



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equipment replacement for the jail; vehicles for the new officers; radio equipment lease; and blight abatement. The new Wythe Fire Station, 911/EOC Center, radio equipment lease, blight abatement and police vehicles are also funded in the out years of the five-year Capital Improvement Plan.

Family Resilience and Economic Empowerment

In addition to continuing to fund our anti-poverty programs, the budget also funds two Senior Family Services Specialists to continue the prevention and early-intervention partnership with our schools. The budget also picks up half the cost of a position to continue and expand a Veterans Court to help Veterans who are struggling with substance abuse, post-traumatic stress and/or other mental health issues. A small program that focused only on drug related issues was previously funded with a federal grant. The budget also funds a \$200,000 increase in Hampton Roads Transit funding.

We are also continuing the partnership with the Peninsula Community Foundation that we started in FY17 to conduct a needs assessment of the Old Hampton and North Phoebus sections of our community. This needs assessment will identify opportunities to build on existing community assets to support family resilience and economic empowerment of residents in these areas.

Economic Growth

The budget funds a full-time Business Development Coordinator position to support the economic development goals of the Phoebus Partnership. Additionally, I am happy to report that revenue growth at the Convention Center will allow us to reduce the planned subsidy by \$250,000 this year.

The capital budget funds investments in Economic Growth, including the extensions of Coliseum Drive and Commerce Drive, which will open property up for additional development in the Coliseum Central area. Commitments to Housing Improvement Grants and Strategic Property Acquisition are also continued in FY18 along with improvements in the Hampton Roads Center area of the City.

More investments will be determined as City Council continues to refine strategic priorities for economic growth in later years of the Capital Improvement Plan. The public provided feedback on these potential projects. We expect to actively work on the strategic investments above the baseline capital budget/CIP this summer.

Living with Water

The budget also funds an increase in the City's contribution to the Hampton Roads Planning District Commission to support regional Coastal Resiliency efforts.

In addition to continuing to fund our investments in cleaning the Chesapeake Bay through our Stormwater improvements, the FY18 capital budget also includes a major flood mitigation project at Indian River Creek and Pochin Place as well as a beach nourishment study at Buckroe Beach.



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Funding for Buckroe Beach nourishment, Salt Ponds Dredging and Inlet Improvements are also included in the out years of the five-year CIP.

Place Making

We have also added \$30,000 to Non-Departmental to continue to support the "Love Your City" grant program that was initiated with one-time money in FY17. This program is designed to support small events and festivals that promote fun in our community. We are activating our waterfronts, with watercraft rentals available this summer at three of our parks. This initiative will provide both fun activities for residents and visitors and some revenue from the proceeds.

In addition to continuing to fund park maintenance projects, Citywide landscaping and neighborhood improvements, the capital budget also funds the completion of the Fort Monroe Sailing Center, bus stop improvements and North King Street streetscaping from Lincoln Street to I-64. In future years, the CIP includes additional streetscape projects on King Street and Pembroke Avenue, and Cunningham Drive Sidewalks in addition to park maintenance, city-wide landscaping, neighborhood improvements and bus-stop improvements.

Good Government

This budget funds the second year of a program to regularly replace the City's workforce computers. The budget also funds more than \$1 million increases in fixed costs, including over \$600,000 in the equipment replacement fund to support replacing the City's fleet of vehicles. Fixed costs have largely been held level the past few years.

We continue to fund street resurfacing, wastewater infrastructure rehabilitation, facility maintenance and re-engineering technology in the FY18 Capital budget and into future years of the CIP. The FY18 Capital Budget also includes funding for traffic signal retiming and replacement of the facility that stores salt used for treating roads during snow. Future years of the CIP also include Little Back River Road reconstruction as well as a new traffic signal at North Campus Parkway and Magruder Boulevard.

Employee Compensation

As noted above, employee compensation was a top priority for the FY18 budget. I am pleased to report that the recommended budget honors this commitment with a 2% increase for employee compensation. While we were initially planning to return to a merit-pay system this year, additional work needs to be done to put in place a new employee evaluation tool. Department heads serving on the City Manager's Budget Review Committee recommended that we wait until the new evaluation system is in place before returning to merit-based raises.

The budget once again funds a mid-year citizen satisfaction bonus of up to \$250 for full-time employees and \$125 for eligible part-time employees. The actual bonus is based upon the percentage



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of residents who express satisfaction with the way employees perform their jobs, as reflected in the Citizen Satisfaction Survey. This bonus will be funded out of end-of-the-year departmental savings, as was done in the previous two years. Doing so is appropriate, since it is our employees who generate these savings. Tying the bonus to citizen satisfaction provides a critical link between employees and the customers they serve.

The budget also funds a change to the City's promotion policy. Historically, the City provided an 8% (10% if going from non-exempt to exempt) increase for internal promotions but allowed managers to hire people from outside the organization at up to 10%. This often put managers in a position where they could pay people coming from outside the organization more than people who were promoted within. The proposed policy increases the promotion increase to 10% (12% if going from non-exempt to exempt). Making this change will certainly cost more money to the City, but is the right thing to do - especially to ensure we retain our existing talent.

This budget also covers the City portion of the increase in health insurance premiums and the full employer/employee share of life insurance premiums. As a point of reference the City funds 70%+ of the total health insurance premiums. Employees participating in our plan will have a slight increase in their premiums as we projected last year. However, the premium increases are relatively modest and will be less than full-time employees' 2% pay increase, ensuring that all employees should see an increase in take-home pay.

The quarterly bonus personal days begun several years ago as a non-monetary incentive for employees when raises were not consistently provided does also remain in this budget. Although we have returned to consistent raises, this personal day benefit is treasured by the workforce. Since our employees continued to work under stressful conditions, with manning that is lower than other cities, it is appropriate that we continue to reward them with this benefit.

Taken together, this compensation package will keep us competitive with our peer communities in the region. These general wage increases will go into effect in July 2017. Investments in our workforce are reflective of a shared management and Council commitment to consistent, sustainable wage increases as a primary budget priority as we continue to recover from the recession.

Taxes and Fees

I am pleased that the budget does not include increases in general real estate or personal property tax rates. Our goal is always to avoid general tax increases unless absolutely necessary.

As discussed in our community budget conversations, however, there is a need for a solid waste user fee increase of twenty-two cents per week, or \$11.44 total for the year. This increase is actually smaller than the one we projected two years ago, reflecting our ongoing commitment to only ask residents for what is needed. The stormwater user fee increase that was projected for this year was not needed, and thus there is no proposed rate change to that or the wastewater fee.



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Also, as discussed in our community budget conversations, we are proposing an increase to the recreational vehicle tax (RV tax). After the City imposed a boat registration fee two years ago, citizens who were pushing for the reinstitution of the boat tax asked that we look at the RV tax. In looking at this issue, we found that all of the other localities in the region had an RV tax in place, with rates ranging from a low of \$1.00 per \$100 of assessed value in Newport News to the regular \$4.00 personal property tax rate in York and James City Counties. Most communities had a \$1.50 rate; thus, we are proposing this rate in the budget. We believe the rate increase is needed not only for parity but also to ensure that we are not inadvertently encouraging residents from other communities to park their vehicles in Hampton to avoid taxes in their community. We have accidentally created a financial incentive for RVs to be imported to Hampton. With the upcoming changes to the RV parking ordinance, staff felt it important to reverse this unintended incentive. During our community polling, we found more than 85% of residents agreed with re-instituting a personal property tax on RVs.

Additionally, two policy changes - one relating to Emergency Medical Service (EMS) fees and the other relating to extended stay hotel lodging taxes - are being put forward to stabilize revenue sources for the future. Under our insurance billing program, co-pays for EMS fees were waived for residents. Recent developments - principally a market shift to high deductible plans - threaten the stability of this revenue source which supports the operating budget of the Hampton Fire & Rescue Department. Additionally, other cities, including Newport News with whom we are working on automatic mutual aid dispatching for routine calls, do charge resident co-pays. These facts combined caused us to seek public input on changing our policy. Residents overwhelmingly supported charging co-pays both to protect the automatic mutual dispatching program with Newport News and to stabilize the EMS revenue source. While rates will not change as a result of this policy change, residents will become responsible for co-pays not covered by insurance. Our hardship policy will remain in effect for those who are unable to financially afford payment.

The other policy change relates to extended-stay hotel lodging taxes. Current City Code limits the collection of lodging tax to those in extended stay properties for stays of 60 days or less. State Code permits up to 90 days, and other cities throughout the Commonwealth, such as Virginia Beach, take advantage of the full 90 days. Changing our policy to 90 day stays will result in an additional \$75,000 of revenue for the community from out-of-town guests.

Operational Efficiency Measures

Over the past seven fiscal years, we have reorganized departments to streamline and create efficiencies. More than 125 positions were eliminated during the recession. Although Hampton ranks as one of – if not the – most efficient governments in Hampton Roads relative to population size, we continue to work to identify opportunities to be more efficient. This year was no different.

In our review of departmental operations, we have identified over \$1 million in savings through reductions to departments. These reductions are detailed in Appendix A attached to this message. This savings is above and beyond the over \$500,000 in savings we achieved through long-term



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leases that are now coming off the books and is a big reason why we were able to address our top priorities this year.

While we continue to work to identify opportunities for savings each year, budget cuts made since the recession have made more reductions extremely challenging. Additional cuts in the future would likely result in service reductions and eliminations, or disinvestment in our infrastructure and economic development efforts. Through their participation in the "I Value" budget input process, our citizens have also indicated resistance to further service reductions.

Our departments have been excellent stewards of public funds, consistently finding innovative ways to stretch funding to meet community needs. Hampton consistently offers comparable levels of services at lower costs when compared to other jurisdictions, a testament to the commitment, hard work, and innovation of our managers and staff. However, most departmental budgets have been stagnant or declining since the recession – even in the face of rising costs. The only increase in operating funds for most departments has been fixed costs requirements. Thus, all such cuts are painful and come with some consequence. That said, these cuts were needed to invest in our top priorities.

In short, I believe this budget continues us on the path of addressing some of our most pressing needs, even in spite of the reductions we made. We will need to continue down this path of reinvestment in future fiscal years.

Looking Ahead

I am pleased that we have been able to recommend a budget that provides a raise for our employees, continues our strategic investments, and maintains our current service levels without a major tax increase.

However, I would be remiss if I did not mention that – while we see many positive things happening in our community – we also face some uncertainty.

With the change in federal government priorities initiated by the new Presidential administration, we face a number of questions. There are indications that defense-related spending may increase, which could benefit Hampton through increased spending at military bases and work at Newport News Shipyard. And the President's initial budget proposal also would boost spending for the Department of Veterans Affairs, which could increase employment and expansion at the Veterans Affairs Medical Center. However, other changes could have negative impacts. Changing federal priorities could negatively impact NASA Langley. Additionally, significant cuts have been proposed to the Department of Housing and Urban Development, which could threaten the Community Development Block Grant and other important programs for the City. It is also uncertain what the impact of changes to federal trade policy may have on the region's ports and whether the President's support for the coal industry will translate into increased activity at the coal piers in Newport News. Finally, other decreases in federal spending and employment being proposed by the President could



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have a significant impact on the state budget, which could, in turn, be passed on to cities and counties across the Commonwealth, as has been done in the past. It is within this uncertainty that we are preparing the budget this year. With that in mind, we have prepared the budget as though traditional funding will continue, but we will be prepared to make adjustments during the year as necessary.

Additionally, as we prepare the FY19 budget we will have decreased flexibility. We benefited from some unique circumstances in FY18, with the end of some of our long-term commitments such as the end of long term leases in excess of \$500,000, with the Harbor Center Garage lease being the largest of these. We have also used one-time funds to fund the final year of our commitments to capital campaigns by Hampton University and Christopher Newport University.

We have transferred the Council Strategic Initiative funds in the capital budget to the operating budget to further our key priorities such as employee pay increases and public safety investments to fight crime. However, this too is a one-time opportunity. We will not be able to take these steps in future years, which could make budgets more challenging if revenue growth does not improve.

On the positive side, we have seen real estate values continue to slowly recover, and several economic development projects are on the verge of getting up and running. We continue to see development momentum with new investments in the City, including ongoing projects such as the expansion of the Peninsula Town Center; the redevelopment of Riverdale into Riverpointe anchored by Kroger and At Home; Lidl; Aldi; aggressive development at the H2O; the Armory reuse; new Hyatt Place Hotel; and other investments such as the Peninsula Town Center's recently announced Macy's redevelopment plans. The value of construction permits more than doubled from FY14 to FY16. We are optimistic that these trends will continue, as we continue to seek development proposals for city-owned properties and work with private landowners, particularly in our Master Plan areas, to seek expansions and redevelopment.

Much of the new development we are seeing is the result of investments the City has made to grow our economy and tax base in recent years. The recommended budget continues to make these investments by moving City Council's Strategic Priorities forward. I believe our momentum will continue to build as the economy improves and businesses and families continue to Choose Hampton.

Closing Thoughts

Without a doubt, the recession made for many tough budget years. While I am pleased that there is continued improvement, we have not yet completely recovered from the recession and, in fact, the entire Hampton Roads region's recovery is ranked as one of the nation's slowest, according to the Hampton Roads Planning District Commission.

We are not yet back to the days with predictable solid revenue growth, and uncertainty about federal policy is also something that could negatively impact us. In the face of these challenges, we continue to work hard to grow our tax base and a better future for our community. I firmly believe



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that our residents, businesses, staff and elected officials have clearly demonstrated that, working together, we can overcome our challenges and chart a bright future for the City of Hampton. ***We are Hampton, a vibrant waterfront community celebrating and embracing 400 years of history and innovation to create an even more dynamic future.***

I would like to publicly acknowledge and thank the wonderful group of department heads, assistant city managers, and our budget and finance teams for meeting the challenges posed by this year's budget. I would also like to thank our residents for their continued participation and input into our budget development process. We look forward to working with each Council Member in the coming weeks to better understand the budget and its impact on our community and workforce. As always, we stand ready to assist you and the community in your deliberations.

Sincerely,

A handwritten signature in black ink that reads "Mary B. Bunting". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Mary B. Bunting
City Manager



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Appendix A: Operational Efficiency Measures

Departmental Reductions	
311 Customer Call Center - Reduce hours	5,574
Assessor's Office - Operating budget reduction	3,300
City Manager's Office - Department wide reduction	13,628
Community Development - Eliminate vacant position & additional attrition	73,812
Convention and Visitor Bureau - Operating budget reduction	23,363
Convention Center - City subsidy reduction	250,000
Court System Savings	75,000
Economic Development - Operating budget reduction	2,283
Finance - Other salaries - part-time savings	9,525
Fire and Rescue Division - Additional attrition	50,000
Hampton History Museum - Operating & other salaries – part time savings	10,785
Human Resources - Operating budget reduction	15,000
Information Technology - Operating budget reduction	11,535
Marketing and Outreach - Operating budget reduction	10,000
Municipal Council - Other salaries - part-time savings	4,970
Non-departmental - Legal fees & other professional services - less use of external attorneys	175,000
Public Works - Drainage Maintenance - Operating budget reduction & other Salaries – part time savings	57,597
Public Works - Parking Facilities - Operating budget reduction (excluding end of Harbor Center garage lease)	12,600
Recreation - Eliminate vacant position & operating savings	79,177
Social Services - Department Wide to fund Senior Family Services Specialist for school and court prevention initiatives	44,970
Youth, Education and Family Services - Continue to Freeze already vacant Healthy Start Team	154,885
Total	1,083,004